

LOUISIANA SCHOOLS FOR THE DEAF AND VISUALLY
IMPAIRED
SPECIAL SCHOOLS AND COMMISSIONS



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
MAY 8, 2019

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Louisiana Schools for the Deaf and Visually Impaired

May 2019

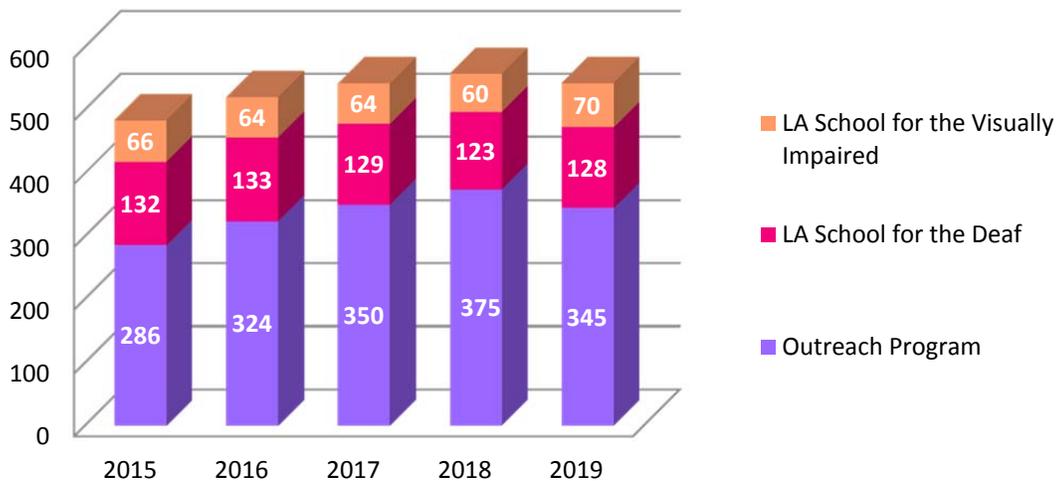
Audit Control # 80190024

Introduction

The primary purpose of our procedures at the Louisiana Schools for the Deaf and Visually Impaired (LSDVI) was to evaluate certain controls LSDVI uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide accountability over public funds. In addition, we determined whether management has taken action to correct the finding reported in the prior report.

LSDVI, located in Baton Rouge, provides residential and/or day elementary and secondary educational services to children ages 3-21 who are deaf/hard-of-hearing and/or visually impaired. Students ages birth through three are served in the natural environment of their homes through LSDVI's Outreach Program. Exhibit 1 shows student enrollment over the past five years.

Exhibit 1
Student Enrollment – Fiscal Years 2015 through 2019



Source: Prepared by legislative auditor's staff using information obtained from LSDVI

Results of Our Procedures

We evaluated LSDVI's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the applicable laws and regulations. Based on the documentation of LSDVI's controls and our understanding of related laws and regulations, and the results of our analytical procedures, we performed procedures on selected controls and transactions relating to inventory, LaCarte purchasing card expenditures, payroll expenditures, movable property, and the Education Excellence Fund.

Follow-up on Prior-report Finding

We reviewed the status of the prior-report finding in LSDVI's procedural report dated June 7, 2017. The prior-report finding related to Inadequate Controls over Inventory has not been resolved and is addressed again in this report. However, the portion of the prior-report finding related to vending inventory is considered resolved.

Current-report Finding

Inadequate Controls over Inventory

For the second consecutive engagement, LSDVI did not have adequate controls in place to ensure that complete and accurate inventory records were maintained over the food services inventory. Food services employees did not fully comply with internal policies related to the recording of food inventory. In addition, LSDVI employees did not maintain accurate inventory records over the concessions inventory. The absence of good internal controls over inventory increases the risk of theft and waste, and prevents management from properly managing and monitoring inventory levels.

Our review of food services inventory and concessions inventory disclosed the following:

- For 20 items selected from the food services inventory listing, we performed a physical count of the items. The on-hand count for 11 (55%) items did not agree to the count included on the inventory listing. For eight of the items, the inaccurate counts on the inventory listing were a result of employees not properly recording items used. The counts for three of the items were incorrect because of data entry errors.
- For 10 items selected from the food services stockroom and coolers, we compared the count on-hand to the count on the inventory listing. The on-hand count for four (40%) items did not agree to the count included on the inventory listing. For three of the items, the inaccurate counts on the inventory listing were a result of employees not properly recording items used. The count for one item was

incorrect because the item was pulled from inventory and recorded as used but was later returned to the cooler and was not added back to the inventory records.

- A review of LSDVI's controls over concessions inventory disclosed inaccurate inventory records, including errors in amounts sold, which led to sales amounts and inventory counts being overstated or understated. Although LSDVI had a method for tracking concessions inventory, LSDVI was not accurately recording the amounts purchased and used, and had no supervisory review to provide oversight.

Good internal controls over inventory include maintaining complete and accurate inventory records, including a method of accurately accounting for items as they are purchased and used.

Management should emphasize established policies through training and guidance; ensure that all inventory policies include procedures for providing supervisory review and approval; and ensure that inventory records are accurate and complete. Management did not concur that a repeat finding was warranted. Management also noted it did not concur that its food service employees did not fully comply with internal policies related to the recording of food inventory. Management did concur with the portion of the finding relating to concessions inventory and provided a plan of corrective action (see Appendix A).

Additional Comments: LSDVI's controls over food services inventory did not prevent or detect the errors noted by the auditor. Some errors dated back to August 2018 and were not identified or corrected by management during LSDVI's physical inventory that was taken in January and February 2019. Management having to perform research to reconcile on-hand counts to the inventory records after the auditor has performed a physical count indicates that controls were not working or were not being followed.

LSDVI concurred with the finding related to concessions inventory and noted that the discrepancies identified occurred during the 2017-2018 school year. Our procedures covered concessions inventory handled by the athletics department during the 2017-2018 and 2018-2019 school years. The last event handled by the athletics department occurred on August 25, 2018, during the 2018-2019 school year, and discrepancies were noted for this event.

Inventory

LSDVI's food services inventory balance consists of non-perishable food and supplies kept in a stockroom and perishable food and supplies kept in coolers and freezers. LSDVI's concessions inventory consists of snacks and drinks that are kept in a separate stockroom and are used to operate the concession stand for athletic events. The Louisiana School for the Visually Impaired's student vending program inventory consists of snacks kept in a separate stockroom that are used to stock vending machines located around the campus.

We obtained an understanding of LSDVI's controls over food services inventory, concessions inventory, and student vending inventory. We performed procedures to determine if LSDVI

maintained complete and accurate inventory records. Based on the results of our procedures, LSDVI had adequate controls in place to ensure that complete and accurate inventory records were maintained for the student vending program, but did not have adequate controls in place for the food services and concessions inventories (see Current-report Finding section).

LaCarte Purchasing Card Expenditures

LSDVI participates in the state of Louisiana's LaCarte purchasing card program. We obtained an understanding of LSDVI's controls over LaCarte purchases. We analyzed LaCarte card transaction listings for the period July 1, 2017, through February 5, 2019, and reviewed selected transactions to determine whether LSDVI obtained prior approval to purchase, purchases were made for proper business purposes, sufficient documentation was maintained to support purchases, and transactions were properly reviewed and recorded. Based on the results of our procedures, LSDVI had adequate controls in place over LaCarte purchases and complied with applicable policies and regulations.

Payroll Expenditures

Salaries and related benefits made up 83% of LSDVI's fiscal year 2018 expenditures. We obtained an understanding of LSDVI's controls over the time and attendance function and reviewed selected employee time statements and leave records. Based on the results of our procedures, LSDVI had adequate controls in place to ensure timely review and approval of employee time statements and leave requests.

Movable Property

LSDVI uses the state's Asset Management Program (AMP) to record the purchase and disposal of movable property. We reviewed selected purchases for the period July 1, 2017, through December 31, 2018, to determine whether LSDVI had adequate controls in place to ensure property is recorded in AMP accurately and within 60 calendar days after receipt of the item as required by the Louisiana Administrative Code. We also reviewed selected disposals approved by the Louisiana Property Assistance Agency for the period July 1, 2017, through February 5, 2019, to determine whether the disposal was reasonable based on years of service. Based on the results of our procedures, LSDVI had adequate controls in place and complied with applicable laws and regulations.

Education Excellence Fund

In accordance with Louisiana Revised Statute 39:98.3, LSDVI receives statutory dedicated funding from the Education Excellence Fund (EEF) each fiscal year. Any unused funds are carried over into the next fiscal year. LSDVI is required to submit a prioritized plan for

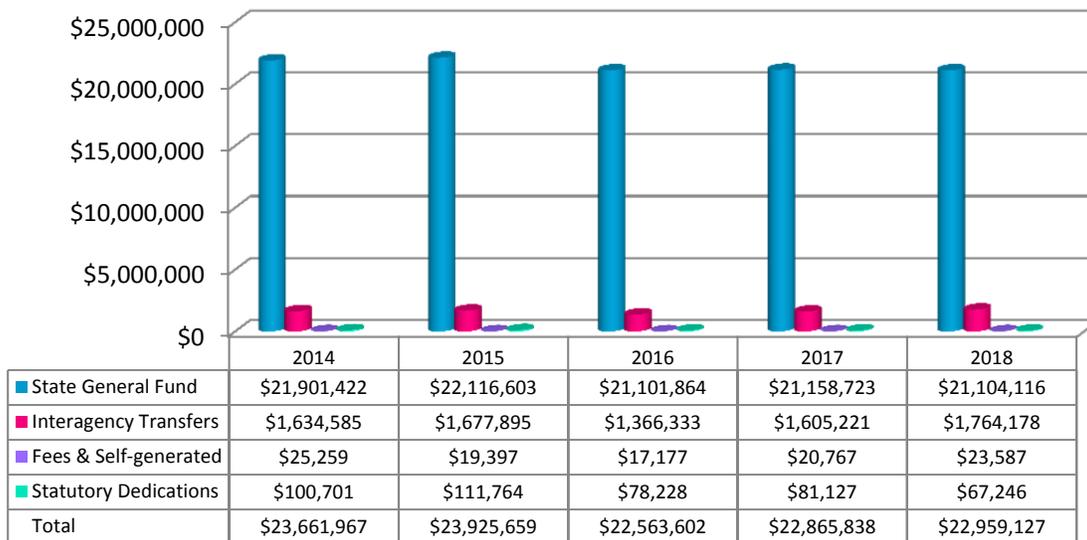
expenditure of the funds to the state Department of Education (DOE) for approval each fiscal year. We reviewed LSDVI's approved EEF plans and analyzed LSDVI's EEF expenditures for fiscal years 2018 and 2019. Based on the results of our procedures, LSDVI received the amount of EEF funds required by law and had adequate controls in place to ensure that expenditures were for activities approved by the DOE.

Trend Analysis

We compared the most current and prior-year financial activity using LSDVI's Annual Fiscal Reports and/or system-generated reports and obtained explanations from LSDVI's management for any significant variances. We also prepared an analysis of LSDVI's revenue and expenditures from fiscal year 2014 through fiscal year 2018.

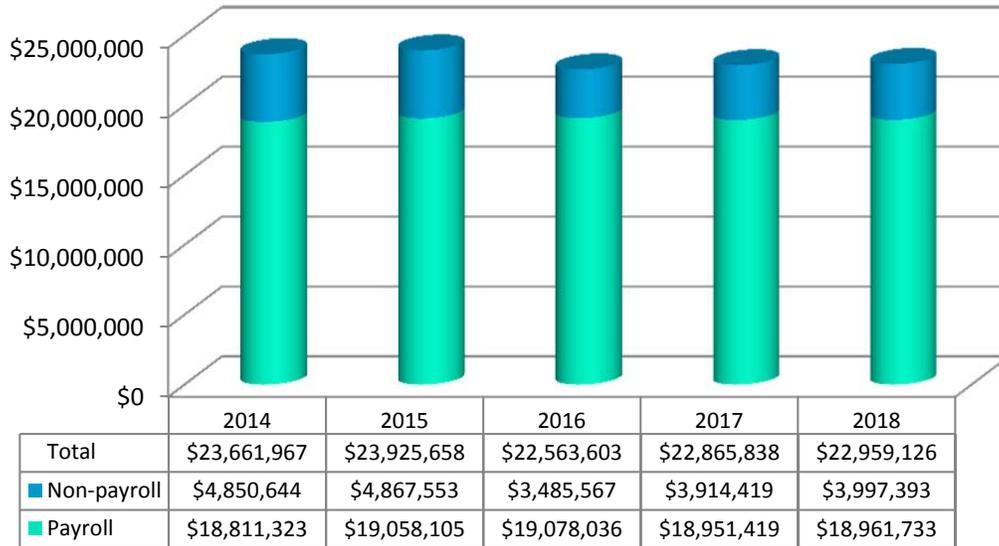
LSDVI is primarily funded with state General Fund monies. Payroll expenditures make up between 80% and 85% of LSDVI's expenditures each fiscal year. As shown in Exhibit 2 and Exhibit 3, LSDVI's revenue and expenditures have remained fairly consistent from fiscal years 2014 through 2018.

Exhibit 2
Revenue by Appropriation Type – Fiscal Years 2014 through 2018



Source: Integrated Statewide Information System Reports

**Exhibit 3
Expenditures – Fiscal Years 2014 through 2018**



Source: Integrated Statewide Information System Reports

Under Louisiana Revised Statute 24:513, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

 Daryl G. Purpera, CPA, CFE
 Legislative Auditor

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LSDVI 2019

APPENDIX A: MANAGEMENT'S RESPONSE

April 23, 2019

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Re: Response to Audit Finding
Inadequate Controls over Inventory

Dear Mr. Purpera:

This letter serves to provide a formal response to the above-referenced audit finding.

Food Services Inventory

LSDVI respectfully does not concur that a repeat finding of "Inadequate Controls over Inventory" is warranted based on the facts below.

The following controls have been implemented as recommended in the Legislative Auditor's report dated June 7, 2017:

- A new process has been put in place in order to record and account for receipt, usage, and disposal of inventory items.
- Physical inventory counts are reconciled to inventory records. Discrepancies are researched and resolved.
- Written procedures are in place related to inventory and have been communicated to staff involved in receiving and issuing inventory.
- The Food Service staff responsible for receiving and issuing inventory have been trained on the new process.

LSDVI does not concur with the statement that "Food services employees did not fully comply with internal policies related to the recording of food inventory." Food Services staff have completed inventory pick sheets every day that food is pulled from inventory. However, human errors do occur with data entry into the inventory system and recording of items used on the pick sheet.

The root problem of the discrepancies found relate to human error. The best system of internal controls cannot eliminate the risk of human error. LSDVI is actively managing the Food Service inventory process. Accurate recording of inventory usage is of the utmost importance. LSDVI is striving to obtain a 100% accuracy rate.



At first glance, it is alarming to see that half of the items counted had discrepancies*; however, to see the full picture it is necessary to consider the volume of items being received and used. As of March 21, 2019:

- The Food Service department had a total of 318 items with a total quantity of approximately 24,000.
- The total value of inventory currently on hand is approximately \$26,000.
- The total value of the 15 discrepancies noted by the auditor amounts to a total of \$577.63 (2% of the total inventory value).
- A total quantity of 211,203 items in inventory have been used this school year. Adjustments have been made to a total quantity of 8,426 items during the school year to bring recorded counts into agreement with physical counts. These figures amount to a 4% total overall error rate since the beginning of the 2018-2019 school year.

To provide further detail, since the audit report dated June 7, 2017, LSDVI has implemented and improved controls over Food Service Inventory by making the following changes:

- Implementation of an inventory system, where receipts, usage, and disposals of items are recorded on a daily basis.
- Development of a pick sheet, which contains specific descriptions and sizes of items in inventory. Food Services staff indicates a quantity being used on the pick sheet and no longer has to write a description of each item being removed from inventory. The Food Service manager and the Business Office have communicated the utmost importance of writing down every item that is used from inventory. However, when moving at a fast pace to serve approximately 200 meals, three times per day, human error is likely to occur. Even the best system of internal controls cannot completely prevent the risk of human error.
- Access to pull inventory from the stockroom, freezers, and coolers has been restricted (by locking these areas at all times) and centralized to two Food Services Staff, the manager and one supervisor. Centralization of access to inventory has been effective since October 2018.
- After physical inventory counts, discrepancies are reconciled and researched to account for how each item was used. This is performed by using reviewing records, snack requests and meal production records as support. This is an important control to ensure that all inventory items are being used only for Food Service purposes.

*It should be noted that all of the discrepancies noted in the auditor's sample selection were researched and each item's usage was accounted for and resolved.



Concessions Inventory

With regard to concessions inventory, LSDVI concurs with the finding. The LSDVI Athletic Director will implement the following corrective action by June 30, 2020:

- Add purchases of inventory to the inventory log the day it is received.
- Verify that accurate inventory figures are updated on inventory spreadsheets for every event held.
- Count, record, and document the reason for all inventory disposals.
- Count inventory on a regular basis.

It should be noted that the discrepancies identified during this audit occurred during the 2017-2018 school year. A different employee began handling athletic concessions during the current school year, using the same inventory process, and no discrepancies were identified.

Sincerely,



Dr. Patrick Cooper
SSD Interim Superintendent



APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana Schools for the Deaf and Visually Impaired (LSDVI) for the period from July 1, 2017, through May 6, 2019. Our objective was to evaluate certain controls LSDVI uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and to provide accountability over public funds. The scope of our procedures, which are summarized below, was significantly less than an audit conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. We did not audit or review LSDVI's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. LSDVI's accounts are an integral part of the state of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

- We evaluated LSDVI's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to LSDVI.
- Based on the documentation of LSDVI's controls and our understanding of related laws and regulations, and the results of our analytical procedures, we performed procedures on selected controls and transactions relating to inventory, LaCarte purchasing card expenditures, payroll expenditures, movable property, and the Education Excellence Fund.
- We compared the most current and prior-year financial activity using LSDVI's Annual Fiscal Reports and/or system-generated reports to identify trends and obtained explanations from LSDVI's management for any significant variances that could potentially indicate areas of risk.

The purpose of this report is solely to describe the scope of our work at LSDVI and not to provide an opinion on the effectiveness of LSDVI's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purpose.